



OFFICE OF
**INSPECTOR
GENERAL**
UNITED STATES POSTAL SERVICE

HIGHLIGHTS

September 18, 2012

Lease Purchase Options for Postal Service Facilities

Report Number DA-AR-12-002

BACKGROUND

The U.S. Postal Service administers over 24,000 leases, representing about \$820 million in annual rent. About 2,252 leases have purchase options, which enable lessees to purchase leased properties. The Facility Service Office is responsible for negotiating, executing, and tracking leases and headquarters decides whether to execute the lease purchase option. Our objective was to determine whether or not the Postal Service is exercising lease purchase options that provide adequate cost benefits to the Postal Service.

WHAT THE OIG FOUND:

While the Postal Service generally exercised favorable purchase options, opportunities exist for improving the process. Of the 195 leases reviewed, six had options that were economically favorable but were not exercised. By not exercising these favorable purchase options, the Postal Service incurred about \$1.3 million in additional cash outlays for long-term lease obligations. In addition, management did not use its ability to assign lease purchase options to third parties in the real estate market to its economic advantage. Twenty-one leases, which are scheduled for termination or identified as potential terminations, have options the Postal Service could assign to third parties to

generate about \$936,000 in revenue. The Postal Service did not always perform the required analysis for potentially favorable purchase options, which can result in missed opportunities. Finally, the Postal Service did not consider exercising purchase options for leased property occupying less than 6,500 square feet (SF). Five leases, each for properties of less than 6,500 SF, contained purchase options of \$1 that, if exercised, would have represented about \$134,657 in cash savings to the Postal Service. Reviewing purchase options based on building size alone could lead to missed purchase option opportunities.

WHAT THE OIG RECOMMENDED:

We recommended that management develop an objective methodology to quantify and prioritize opportunities for favorable purchase option exercises, establish procedures for assigning lease purchase options to third parties in the real estate market, reiterate the importance of performing the required analysis on potentially favorable purchase options, and revise procedures to evaluate lease purchase options for leases occupying less than 6,500 SF.